

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Changes Concerning Attributable Costing

Docket No. RM2016-13

COMMENTS OF THE UNITED STATES POSTAL SERVICE
IN RESPONSE TO ORDER NO. 3507
(October 17, 2016)

Order No. 3507 (September 9, 2016) established this proceeding to consider issues relating to the definitional changes in costing emanating from Order No. 3506 (September 9, 2016) in Docket No. RM2016-2. The deadline for the submission of comments was set at October 17, 2016. The Postal Service hereby submits its comments.

One provision of proposed section 3015.7 (Standards for compliance) appears to include a circular reference (to incremental costs) that could beneficially be eliminated.

As proposed, subsection (b) would read:

(b) Each competitive product must recover its attributable costs as defined in 39 U.S.C. 3631(b). Pursuant to 39 U.S.C. 3631(b), the Commission will use a competitive product's incremental costs, which is the sum of volume-variable costs, product-specific costs, and those inframarginal costs calculated as part of a competitive product's incremental costs, to calculate attributable costs.

An alternative version of this language, conveying the same intent, but avoiding the circular reference, might be as follows:

(b) Each competitive product must recover its attributable costs as defined in 39 U.S.C. 3631(b). Pursuant to 39 U.S.C. 3631(b), the Commission will calculate a competitive product's attributable costs as the sum of its volume-variable costs, product-specific costs, and those inframarginal costs calculated as part of a competitive product's incremental costs.

The Postal Service submits that this version more clearly and directly conveys the intent of the provision by eliminating the circular reference.

The Postal Service has two comments on the updated PRC Form CP-01 included with the proposed rules. The first comment is very minor, and would actually be rendered moot based on consideration of the second comment. Specifically, the first comment is that in the note for Line (8), the formula at the end still states “(line 3 less line 6),” but because of the insertion of a new line (6) and the reformulation of line (7), the formula at the end of the note for Line (8) should instead read “(line 3 less line 7).”

More significantly, however, the Postal Service suggests that a slightly broader housekeeping change is needed in PRC Form CP-01. In a footnote on page 47 of the ACR for FY2014, the Postal Service noted that section 3641(b)(3) of title 39 appears to contemplate that either positive or negative contribution resulting from competitive market tests should be included in the contribution calculation performed to evaluate aggregate competitive product contribution relative to the 5.5 percent target. In the same footnote, though, the Postal Service concluded that the market test amounts in FY2014 were too small to merit further consideration. By the time of preparation of the FY 2015 ACR, however, the market test amounts had grown larger, and they therefore were incorporated into the contribution target analysis. FY2015 ACR (December 29, 2015) at 69. As can be seen in the version of PRC Form CP-01 submitted last year as part of USPS-FY15-39 (Competitive Product Fund Reporting Material), this required the insertion of another row into Form CP-01. The new row (Net Contribution Competitive Products Market Tests) immediately followed the row for Total Competitive Products Attributable Costs. Since the requirements of section 3641(b)(3) are unlikely to change,

and since the potential for (at least in some sense) material aggregate contribution from competitive products market tests may also continue, the Postal Service recommends that the Commission take the opportunity now to add the Market Test row to the model Form CP-01 shown in 39 CFR. This step, of course, would require slight recalibration of many of the line numbers in the formulas as they appear in the notes section, including the above-discussed Line (8).

A revised version of Form PRC CP-01 as the Postal Service recommends that it should appear in 39 CFR is attached, with changed portions (relative to what was included with the proposed rules in this proceeding) highlighted in gray.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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§ 3060.21 Income report.

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Table 1—Competitive Products Income Statement—PRC Form CP-01

[\$ in 000s]

	FY 20xx	FY 20xx-1	Percent change from SPLY	Percent change from SPLY
Revenue:	\$x,xxx	\$x,x xx	xxx	xx.x
(1) Mail and Services Revenues	xxx	xxx	xx	xx.x
(2) Investment Income	x,xx	x,xxx	xxx	xx.x
(3) Total Competitive Products Revenue				
Expenses:	x,xxx			
(4) Volume-Variable Costs	x,xxx	x,xxx	xxx	xx.x
(5) Product Specific Costs	x,xxx	x,xxx	xxx	xx.x
(6) Incremental Inframarginal Costs	x,xxx	x,xxx	xxx	xx.x
(7) Total Competitive Products Attributable Costs	x,xxx	x,xxx	xxx	xx.x
(8) Net Contribution Competitive Products Market Tests	xxxxx	xxxxx	xxx	xxx
(9) Net Income Before Institutional Cost Contribution	x,xxx	x,xxx	xxx	
(10) Required Institutional Cost Contribution	x,xxx	x,xxx	\$xxx	x.x.x
(11) Net Income (Loss) Before Tax	x,xxx	x,xxx	\$xxx	xx.x
(12) Assumed Federal Income Tax	x,xxx	x,xxx	\$xxx	xx.x
(13) Net Income (Loss) After Tax	x,xxx	x,xxx	\$xxx	xx.x

Line (1): Total revenues from Competitive Products volumes and Ancillary Services.

Line (2): Income provided from investment of surplus Competitive Products revenues.

Line (3): Sum total of revenues from Competitive Products volumes, services, and investments.

Line (4): Total Competitive Products volume-variable costs as shown in the Cost and Revenue Analysis (CRA) report.

Line (5): Total Competitive Products product-specific costs as shown in the CRA report.

Line (6): Inframarginal costs calculated as part of total Competitive Products incremental costs.

Line (7): Sum total of Competitive Products costs (sum of lines 4, 5, and 6).

Line (8) Net Contribution Competitive Products Market Tests as shown in the Annual Compliance Report.

Line (9): Difference between Competitive Products total revenues and attributable costs and Market Tests Contributions (line 3 less line 7 plus line 8).

Line (10): Minimum amount of Institutional cost contribution required under 39 CFR 3015.7 of this chapter.

Line (11): Line 9 less line 10.

Line (12): Total assumed Federal income tax as calculated under 39 CFR 3060.40.

Line (13): Line 11 less line 12.